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SUBJECT: 20032 INVESTMENT CLIMATE STATEMENT FOR TURKEY

Ref: STATE 12849488106

The following is the 20032 Investment Climate Statement for Turkey:

¶1. OPENNESS TO FOREIGN INVESTMENT

Turkey has been pursuing liberal and outward-oriented economic policies since the mid-1980s. The Government of Turkey (GOT) views foreign direct investment as vital to the country's economic development and prosperity. Accordingly, on paper Turkey has one of the most liberal legal investment regimes for FDI in of the OECD. With the exception of some sectors (see below), areas open to the Turkish private sector are generally open to foreign participation and investment. However, aAll companies - regardless of nationality of ownership - face a number of obstacles: political and macroeconomic uncertainties, excessive bureaucracy, weaknesses in the judicial system, high tax rates, weaknesses in corporate governance, arbitrary decisions taken at the municipal level, and frequent, sometimes unclear changes in the legal and regulatory environment. As a result, FDI inflows, at well below one percent of GDP over the last decade, have been far below that of more investor-friendly emerging markets as well as of Turkey's potential. The GOT's far-reaching program of economic and political reform agreed with the World Bank and IMF, and motivated also by multilateral agreements and EU accession, should address many of these problems.

Regulations governing foreign investment are, in general, transparent. A 1954 law on foreign investment (Law No. 6224) was substantially modified and liberalized by a 1995 Decree (Decree No. 95/6990) and associated communiqu. Draft lLegislation approved bysubmitted to Parliament in June 20032 (Law 4875 on Direct Foreign Investment) would further liberalized the foreign direct investment regime by: eliminating screening of foreign investors in favor of a notification system; providing national treatment in acquisition of real estate to foreign-owned entities registered under Turkish law; and abolishing the specific minimum capital requirement for foreign investments (general capital requirements for all companies contained in the Turkish Commercial Code will continue to apply). However, implementing regulations for the new law are not yet in place.

(The text of regulations governing foreign investment and incentives can be obtained on the Internet at: www.treasury.gov.tr/english/ybsweb A summary of these regulations can be found at: www.dtm.gov.tr/english/doing/iginvest/invest/ htm and www.igeme.org.tr/introeng.htm

The General Directorate of Foreign Investments of the Undersecretariat of the Treasury screens foreign investments. Treasury has refused permission for a number of small investments because the activity involved was deemed to constitute retail trade rather than investment, or because of security concerns about the individual investors. Screening mechanisms are routine and non-discriminatory, and have not generally impeded serious investment. However, because domestic investment proposals are not routinely screened, foreign investors are not accorded national treatment in the pre-establishment phase.

Turkish law included several additionalspecifies several

other requirements for foreign investors, all of which were scrapped in the new foreign investment law. These included: Real or legal persons resident abroad must invest a minimum of USD 50,000 investment requirement to establish a corporation, become partners in an existing company, or open a branch office; the requirement to . Foreign investors wishing to increase their capital must seek permission from Treasury if the capital increase would change the participation ratio between the foreign investor and any local partners; and. Turkish companies wereare required to register with Treasury any licensing, management, or franchising agreements concluded with foreign persons. Foreign investors owning ten percent or more of a company established in Turkey must inform Treasury of their participation in any directors' or shareholders' meetings. Note: The foregoing requirements would be dropped by the draft foreign investment law.

Foreign investors are subject to restrictions on establishment in certain sectors. Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT. The equity participation ratio of foreign shareholders is restricted to 20 percent in broadcasting, and 49 percent in aviation, value-added telecommunication services, and maritime transportation. However, companies receive full national treatment once they are established. Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT for both domestic and foreign investors.

The GOT privatizes State Economic Enterprises through block sales, public offerings, or a combination of both. Foreign investors generally receive national treatment in privatization programs. Turkish law allows foreign investors to acquire up to 45 percent of Turk Telecom, the monopoly provider of voice and other telecommunications services, with the Turkish government retain a single "golden" (blocking) share, in the company's upcoming privatization.

The Turkish Parliament also passed legislation in June 2003 which should streamline the company registration process (see Section 8 - Transparency of the Regulatory System). Another new law on work permits for foreign citizens which will take effect later in 2003 should give the Labor and Social Security Ministry additional authority in this area (see Section 5 - Performance Requirements/Incentives).

This report was prepared in July 2003. To find the text of regulations governing foreign investment and incentives, please consult the Internet at: www.treasury.gov.tr/english/ybsweb. A summary of these regulations can be found at: www.dtm.gov.tr/english/doing/iginvest/invest/ htm and www.igeme.org.tr/introeng.htm.)

¶2. CONVERSION AND TRANSFER POLICIES

Turkish law guarantees the free transfer of profits, fees and royalties, and repatriation of capital. This guarantee is reflected in Turkey's Bilateral Investment Treaty with the United States, which mandates unrestricted and prompt transfer in a freely usable currency at a legal market clearing rate for all funds related to an investment. There is no difficulty in obtaining foreign exchange. There are no limitations on the inflow or outflow of funds for remittances.

¶3. EXPROPRIATION AND COMPENSATION

Under the 1990 Bilateral Investment Treaty with the United States (codifying existing Turkish law), expropriation can only occur in accordance with international law and due process. Expropriations must be for public purpose and non-discriminatory. Compensation must be reasonably prompt, adequate, and effective. Under the Bilateral Investment Treaty, U.S. investors have full access to the local court system and the ability to take the host government directly to third party international binding arbitration to settle investment disputes. There is also a provision for state-to-state dispute settlement.

As a practical matter, the GOT occasionally expropriates private property for public works or for State Enterprise industrial projects. The GOT agency expropriating the property negotiates and proposes a purchase price. If the owners of the property do not agree with the proposed price, they can go to court to challenge the expropriation or ask for more compensation.

¶4. DISPUTE SETTLEMENT

There are no outstanding expropriation or nationalization cases. However, there are several investment disputes between U.S. companies and Turkish government bodies, particularly in the energy and tourism sectors.. In one case, local authorities have shut down an American-owned hotel and restaurant by denying operating permission and residency permits, apparently without legal basis. Claimant has reportedly initiated four lawsuits against the provincial governor and government agencies, but these cases have not yet been decided by the courts. In the energy sector, the Government of Turkey has not implemented a number of contracts with U.S. firms for build-operate-transfer (BOT) and transfer-of-operating-rights (TOR) power projects. One company filed an international arbitration case against the GOT in 2002. A 2002 Constitutional Court ruling requires the GOT to either proceed with the projects according to the signed contracts, or cancel them and compensate the companies accordingly. The GOT has indicated it will seek a negotiated settlement with those companies, but as of mid-June, the GOT had not contacted any of the companies to pursue a settlement.

Turkey's legal system provides means for enforcing property and contractual rights. The court system is overburdened, however, which sometimes resultsing in slow decisions and judges lacking sufficient time to grasp complex issues. The judicial system is also perceived by the public and by business to be susceptible to external political and commercial influence to some degree. Judgments of foreign courts need to be reconsidered by local courts before they are accepted and enforced. Turkey has written and consistently applied commercial and bankruptcy laws. Monetary judgements are usually made in local currency, but there are provisions for incorporating exchange rate differentials in claims.

Turkey is a signatory of the Washington Convention, and a member of the International Center for the Settlement of Investment Disputes (ICSID), also known as the Washington Convention, and is a signatory of the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards. Turkey ratified the Convention of the Multinational Investment Guarantee Agency (MIGA) in 1987.

The Turkish government accepts binding international arbitration of investment disputes between foreign investors and the state; this principle is included in the U.S.-Turkish Bilateral Investment Treaty (BIT). For many years, there was an exception for "concessions" involving private (primarily foreign) investment in public services. In 1999, the Parliament passed amendments to the constitution allowing foreign companies access to international arbitration for concessionary contracts. In 2000, the Turkish government completed implementing legislation for arbitration. In 2001, the Parliament approved a law further expanding the scope of international arbitration in Turkish contracts. In practice, however, Turkish courts have on at least one occasion failed to uphold an international arbitration ruling involving private companies.

¶5. PERFORMANCE REQUIREMENTS/INCENTIVES

Turkey is a party to the WTO Agreement on Trade Related Investment Measures (TRIMS).

Turkey provides a variety of investment incentives to both domestic and foreign investors, though these were scaled back in 2003. These include corporate tax exemptions, with up to 40100 percent of specified investment expenses - 200 percent for investments over USD 250 million - deductible from future taxable profits

for investments about 5 billion TL (an incentive certificate is not required for this exemption). In addition, there are: ; exemptions from value-added taxes for machinery and equipment purchased locally or imported for the investment; duty-free import of machinery and equipment (though not raw materials or intermediate goods) to be used in the investment; and soft loans for research and development. Investment incentives are defined in a May 2003 Finance Ministry decree. clearly specified in regulations (a government decree issued March 25, 1998, and a related communiqu dated May 6, 1998 Feb 18, 2001).

In order to take advantage of investment incentives, an investor must obtain an "incentive certificate" from the Treasury. The size of the incentive depends upon the geographic location, sector, and value of the investment. Investment incentives are greater in the less-developed "priority" and "normal" areas or sectors, and eligibility depends on a minimum value. According to the current incentive regime, a minimum fixed investment of TL200 billion. (approximately USD 120,000 in July 2002) is required for priority regions, TL 400 billion (approximately USD 240,000 in July 2002) for normal regions and 600 billion TL (approximately USD 360,000 in July 2002) for developed regions. (For more information on the Turkish incentive system, please visit: www.investinturkey.gov.tr/incentives.htm).

The GOT has introduced several special investment incentives for the eastern and southeastern regions. For example, new investments made in these provinces before the end of 2000 are exempt from corporate and income taxes for five years, investors can receive substantial discounts on electricity payments, and state-owned banks will provide reduced rate loans for industrial or employment producing investments.The GOT is considering further tax and social insurance premium reductions for businesses investing in provinces with per capita income below USD 1,500.

There are no performance requirements imposed as a condition for establishing, maintaining, or expanding an investment. There are no requirements that investors purchase from local sources or export a certain percentage of output. However, domestic or foreign investors who commit to realizing USD 10,000 of exports upon completion of the investment may be exempt from certain fees and taxes, such as those related to land registration or company establishment. Investors' access to foreign exchange has no relation to exports.

There are no requirements that nationals own shares in foreign investments, that the shares of foreign equity be reduced over time, or that the investor transfer technology on certain terms.

There are no government imposed conditions on permission to invest, including location in specific geographical areas, specific percentage of local content - for goods or services - or local equity, import substitution, export requirements or targets, employment of host country nationals, technology transfer, or local financing.

The GOT does not request that investors disclose proprietary information, other than publicly available information, as part of the regulatory approval process. Enterprises with foreign capital must send their activity report, submitted to the general assembly of shareholders, auditor's report, and balance sheets to the Treasury's Foreign Investment Directorate every year by May.

With the exceptions noted under "Openness to Foreign Investment", Turkey grants all rights, incentives, exemptions and privileges available to national capital and business to foreign capital and business, on a MFN basis. American and other foreign firms can participate in government-financed and/or subsidized research and development programs on a national treatment basis.

With one exception noted under "Dispute Settlement", vVisa, residence, or work permit requirements have not generally inhibited foreign investors. Expatriates may be assigned as managers or technical staff. We are

aware of one case in the tourism sector in which denial of a residence permit has hindered operations for a foreign investor. A 2003 law (no. 4817) on work authorizations for foreign nationals should give the Ministry of Labor and Social Security more authority over work permits. Implementing regulations are to be issued later this year.

Turkey has a liberal foreign trade regime. There are no discriminatory or preferential export or import policies directly affecting foreign investors. Turkey harmonized its export incentive regime with the European Union in 1995, prior to the start of the Customs Union. Turkey currently offers a number of export incentives, including credits through the Turkish Eximbank, energy incentives, and research and development incentives. Cash incentives for exporters have been eliminated. Foreign investors can participate in these export incentive programs on a national treatment basis. More information on Turkey's trade regime can be found at www.foreigntrade.gov.tr.

Military procurement generally requires an offset provision in tender specifications when the estimated value of the imported goods and/or services exceeds five million dollars. Turkish procedures provide little incentive for U.S. companies to satisfy offset requirements (the obligation to invest or buy Turkish exports as a condition of winning defense contracts) by investing in non-defense industries.

¶6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreign and domestic private entities have the right to freely establish and own business enterprises and engage in all forms of remunerative activity. As noted above, restrictions exist in the establishment of firms in certain sectors where the share of foreign ownership is limited to 20 percent in broadcasting and up to 49 percent in aviation, maritime transportation, and value-added telecommunication services. Certain activities are reserved for GOT owned enterprises. For example, by law, Turk Telekom has a monopoly until December 31, 2003 on providing basic telephone services. Beyond these areas, private entities may freely establish, acquire, and dispose of interests in business enterprises, and foreign participation is permitted up to 100 percent.

However, non-resident investors in companies with foreign capital must seek permission from the Treasury prior to selling part or all of their shares to real or legal persons resident in Turkey. Treasury approval is not required for sales to other foreigners or for sales of securities or capital market instruments through a financial intermediary. Note: This restriction would be removed by the draft foreign investment law currently before parliament.

Competitive equality is the standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations. Turkey is adopting the EU's competition policy; a Competition Board was established in 1997 to implement the 1994 competition (anti-monopoly) law.

¶7. PROTECTION OF PROPERTY RIGHTS

Secured interests in property, both chattel and real are recognized and enforced. There is a recognized and reliable system of recording such security interests. For example, there is a land registry office where real estate is registered. Turkey's legal system protects and facilitates acquisition and disposal of property rights, including land, buildings, and mortgages, although some parties have complained that the courts are slow in rendering decisions and that they are susceptible to external influence (see "Dispute Settlement").

In 1995, the Turkish Parliament approved new patent, trademark and copyright laws in connection with preparations for Turkey's customs union with the EU. Turkey also acceded to a number of multilateral intellectual property rights (IPR) conventions, including the 1971 Paris Act of the Berne Copyright Convention. In 2001, the Parliament enacted amendments to the copyright law, which provide retroactive

protection, expand the list of protected items and include deterrent penalties against piracy. These amendments brought Turkey into compliance with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) in most areas. In recognition of Turkey's progress in the IPR area, USTR removed Turkey from its Special 301 Priority Watch List and placed the country on its Watch List in 2002, where it remains in 2003.1.

Although iIntellectual property holders have praised Turkey's 2001new legislation as a significant improvement in the legal regime, implementing regulations in the area of broadcasting include an arbitration provision which could lead to compulsory licensing of musical and possibly other works. In the software area, piracy rates have come down in recent years following an anti-piracy campaign and a directive to legalize software used in government bodies. However, piracy rates for recorded music remain persistently high. Trademark holders contend that there is widespread and often sophisticated counterfeiting of their marks in Turkey.

Turkey's 1995 patent law replaced a law originally passed in 1879. New trademark, industrial design, and geographic indicator laws were passed at the same time, completely revamping Turkey's foundation for industrial property protection. Turkey also adhered to a number of international conventions in 1995, including the Stockholm Act of the Paris Convention, the Patent Cooperation Treaty, and the Strasbourg Agreement. The Turkish Patent Institute (TPI) was established in 1994 as an independent legal entity (Law No. 4004, June 16, 1994) under the Ministry of Industry and Trade. TPI's mission is to support technological development in Turkey, establish and protect intellectual property rights and provide public information on intellectual property rights. Currently, TPI is understaffed to affect countrywide protection.

In accordance with the 1995 patent law and Turkey's agreement with the EU, patent protection for pharmaceuticals began on January 1, 1999. Turkey has been accepting patent applications since 1996 in compliance with the TRIPS agreement "mailbox" provisions. The patent law does not, however, contain interim protection for pharmaceuticals in the R&D "pipeline." Lack of data exclusivity protection, which is required by the TRIPS agreement, is the key IPR concern for research-based pharmaceuticals companies.

¶8. TRANSPARENCY OF THE REGULATORY SYSTEM

The GOT has adopted policies and laws, which in principle should foster competition and transparency. However, foreign companies in several sectors claim that regulations are sometimes applied in a nontransparent manner. In 2002, the GOT published a report on transparency and good governance in Turkey's public sector and established an interagency steering committee to implement it. The plan calls for: greater public access to information from the government and public sector entities; financial disclosure by elected public officials; and decentralization of most public services.

The government in principle follows competitive bidding procedures. In 20032, Law 4734 on Public Procurement entered into force. The Turkey's Parliament approved amendments to the state procurement law law, which established a board to oversee public tenders, and lowered the minimum bidding threshold at which foreign companies can participate in state tenders. However, the law restricts preferences for local bidders to Turkish citizens and legal entities established by them. The public procurement law may be further amended in the future.

In general, labor, health and safety laws and policies do not distort or impede investment, although legal restrictions on discharging employees may provide a disincentive to labor-intensive activity in the formal economy. Certain tax policies distort investment decisions. High Turkish taxation of cola drinks discourage investment in this sector. Generous tax preferences for free zones provide a stimulus to investment in these zones, perhaps at the expense of

investment elsewhere in Turkey. These preferences may be trimmed under legislation currently under considerationNew free zones law being drafted could consider limiting tax-free status of these zones.

On paper, Turkey's foreign investment regime is liberal. However, pParticularly beyond the establishment phase, bureaucratic "red tape" has been remains a significant barrier to companies, both foreign and domesticproblem. Parliament passed Law 4884 in June 2003 which should simplify company establishment procedures. The law repeals the permit requirement from the Industry and Commerce Ministry for certain firms, institutes a single company registration form and enables individuals to register their companies through local commercial registry offices of the Turkish Union of Chambers and Commodity Exchanges. The goal is to enable registration to be completed in as little as one day and to encourage electronic sharing of documents. Turkish government agencies are expected to issue implementing regulations needed to bring the law into force. The government is also considering other imeasures mplementing an action plan designed to streamline procedures for establishing and operating a business in Turkey, based on recommendations made in a World Bank-funded study on administrative barriers to investment.

¶9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Turkey's financial system and policies facilitate the free flow of financial resources. The private sector has access to a variety of credit instruments. Legal, regulatory and accounting systems are transparent and consistent with international norms.

There is a regulatory system established to encourage and facilitate portfolio investments, though it needs improvements in transparency, accounting, and enforcement provisions to bring it up to EU and US standards. The Istanbul Stock Exchange (ISE), formed in 1986, is becoming one of the major players among emerging markets. As of midend-2001, 3102 companies were listed on the exchange. However, Turkey has yet to develop other capital markets. The Capital Markets Board is responsible for overseeing the activities of capital markets, including activities of the ISE- quoted companies, and securitiesy and investment houses.

Commercial credit in Turkey is allocated according to market terms. However, because of high local borrowing costs (real interest rates can exceed 25 percent), short repayment periods, and limited liquidity condition during the current economic crisis, both foreign and local investors frequently seek credit from international markets to finance their activities. As of September July 20031, there were 512 commercial banks (including 1714 foreign banks) and 16 14 development or investment banks operating in Turkey. Total sectoral assets were approximately USD 130.111.8 billion, or about 75 percent of GNP, as of July September 20031 according to data from the Banking Regulation and Supervision Board. of Turkey. The threefour state-owned commercial banks and the top six privately capitalized banks hold approximately 69 percent of total assets.

The parliament passed a new bank regulatory law in June 1999, which was amended in December 1999 and May 2001. The law created an independent agency, the Banking and Regulation and Supervision Agency (BRSA), headed by a board whose seven members would be appointed by the cabinet for six-year terms. The law's provisions also toughen conditions for establishing new banks or branches, set credit limits to protect bank solvency, and strengthen regulatory and sanctioning powers, including authorizing the board to merge weak banks with stronger ones.

The BRSA was established in August 2000 to monitor and supervise Turkey's banks under the new law. The Central Bank transferred to it the State Deposit Insurance Fund. Since 1997 the SDIF has taken over 21, banks, includingtogether with the Imar Bankasi which was , a bank owned by the Uzan Group, taken over on July 4, 2003., which had supervisory control of seven private insolvent banks. In October 2000, the BRSA declared another three banks insolvent and put them under the Deposit Insurance Fund. During the November 2000 financial crisis, Demirbank, one of Turkey's ten largest banks, became insolvent and was taken over by the

Deposit Insurance Fund. BRSA took over another two banks in February 2001 and five more in July 2001, bringing the total number of banks under its control to ¶19. The Government of Turkey has recapitalized the private banks under its control, and is committed to either selling or liquidating them by year-end 2002. The process still continues for Pamukbank, Turkey's sixth largest private bank. A Bbanking auditing and recapitalization program in the first half of 2002 resulted in increased transparency, and better accounting for non-performing loans, and the takeover of Pamukbank, Turkey's sixth largest private bank. The Bank Capital Restructuring program of the BRSA led to more transparency in banks financial statements as a result of application of athe 3-stage auditing process, and application of international standards.

The BRSA is proceeding to issue new regulation limiting the extent of connected lending (between a bank and related corporate entities), modernizing banks' accounting practices, and requiring frequent BRSA on-site monitoring.

One of the most significant achievements of the reform program has been to restructure the state banks, which continue to control more than one-half of Turkish banking assets. The government liquidated one state bank (Emlak Bank), is trying to privatize another (Vakif Bank), and has significantly downsized (Ziraat Bankasi and Halkbank). Also, it largely eliminated state bank duty losses - unreimbursed subsidized loans from these banks - which had created an enormous financial hole that helped bring about the most recent financial crisis

The Turkish private sector is dominated by a number of large holding companies, whose upper management is controlled by prominent families. Most large businesses continue to float publicly only a minority portion of company shares in order to limit outside interference in company management. Hostile takeovers are unknown in Turkey. There has been no attempt at a hostile takeover by either international or domestic parties in recent memory.

There are no laws or regulations that specifically authorize private firms to adopt articles of incorporation or association to limit or prohibit foreign investment, participation, or control. Neither is there any attempt by the private sector or government to restrict foreign participation in industry standard-setting consortia or organizations.

¶10. POLITICAL VIOLENCE

The general security situation throughout Turkey is stable, but sporadic incidents involving terrorist groups have occurred. The Turkish government is committed to eliminating terrorist groups such as the Kurdistan Workers' Party (PKK - now renamed Kadek) and various leftist and fundamentalist groups. Although these groups have not completely disbanded, their operational capabilities have greatly diminished. These groups have used terrorist activity to make political statements, particularly in Istanbul and other urban areas of Turkey. In 2000 and 2001, terrorists targeting Turkish officials and various civilian facilities, such as fast food restaurants, in Istanbul were responsible for the deaths and injuries of several dozen people. In 2002 and 2003, civilian venues such as fast food restaurants have been the targets of minor bomb attacks. Operation Iraqi Freedom triggered largely peaceful demonstrations in most major Turkish cities, but a series of bombings also occurred in several of Turkey's larger cities. The PKK retains a residual presence in certain parts of southeastern Turkey, where two provinces remain under a state-of-emergency, and several are deemed "sensitive" by the GOT.

Although the Turkish government takes air safety very seriously and maintains strict controls, particularly on international flights, hijacking attempts have occurred as recently as 2001, when a flight attendant was killed during a hijacking by Chechen terrorists. There have been two hostage-taking incidents at luxury hotels in Istanbul in the past year, both staged by pro-Chechen terrorists and resolved without casualties.

¶11. CORRUPTION

CORRUPTION IS PERCEIVED TO BE A MAJOR PROBLEM IN TURKEY BY PRIVATE ENTERPRISE AND THE PUBLIC AT LARGE. THE TURKISH GOVERNMENT CONDUCTED TWO SIGNIFICANT ANTI-CORRUPTION OPERATIONS IN 2001, ONE IN THE ENERGY MINISTRY AND THE OTHER IN THE PUBLIC WORKS MINISTRY. SEVERAL INDIVIDUALS WERE CHARGED WITH CORRUPTION AND WRONGDOING IN GOVERNMENT CONTRACT TENDERS. THE OPERATIONS RESULTED IN THE RESIGNATION OF BOTH MINISTERS AND THE ARREST OF MANY HIGH-LEVEL OFFICIALS. PARLIAMENT CONTINUES TO PROBE CORRUPTION IN THE ENERGY MINISTRY AND OTHER GOVERNMENT BODIES.

Corruption appears to be most problematic in public procurement, with frequent allegations that contracts are awarded on the basis of personal and political relationships of businesspersons and government officials. The judicial system is also perceived to be susceptible to external political and commercial influence to some degree.

Turkish legislation outlaws bribery and some prosecutions of government officials for corruption have taken place, but enforcement is uneven.

Turkey has ratified the OECD antibribery convention, and but has not yet passed the relevant implementing legislation in January 2003 to which would explicitly provide that bribes of foreign officials, as well as domestic, are illegal and not tax deductible. Bribes cannot be deducted from taxes as a business expense.

The Turkish government became a party to three conventions of the Council of Europe in 2001: the Strasbourg Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime; the Criminal Law on Corruption; and the Civil Law on Corruption. By becoming a party to these conventions, the Turkish government agreed to define corruption as a predicate offense for money laundering and to address private sector corruption, as well as public sector corruption, as a crime. The Turkish government has signed the UN Convention against Transnational Organized Crime in 2001 and has submitted a draft proposal to become a party to the UN Convention Against Corruption.

U.S. firms have sometimes alleged that corruption, or at a minimum nontransparent practices, have been a barrier to direct foreign investment. American companies operating in Turkey have complained about contributions to the community solicited, with varying degrees of pressure, by municipal or local authorities.

The Prime Ministry's Inspection BoardDepartment, which advises a new Corruption Investigations Committee, is responsible for investigating major corruption cases. Nearly every state agency has its own inspector corps responsible for investigating internal corruption. The National Assembly can establish investigative commissions to examine corruption allegations concerning Cabinet Ministers for the Prime Minister; a majority vote in the parliament is needed to send these cases to the Ssupreme Ccourt for further action.

Transparency International has an affiliated NGO in Istanbul.

¶12. BILATERAL INVESTMENT AGREEMENTS

Since 1985, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. Turkey has signed or initiated negotiations on bilateral investment treaties with 65 79 countries. Forty-three six of these agreements are now in force, including with the United States, United Kingdom, Germany, the Netherlands, Belgium Luxembourg, Denmark, Austria, Sweden, Switzerland, Spain, Hungary, Poland, Romania, Tunisia, Kuwait, Bangladesh, China, Japan, South Korea, Indonesia, Croatia, Cuba, the Czech Republic, Estonia, Russian Federation, Kazakhstan, Georgia, Tajikistan, Ukraine, Uzbekistan, Belarus, Macedonia, Pakistan, Turkmenistan, Moldova, Kyrgyzstan, Albania, Bulgaria, Argentina, Bosnia, Malaysia, Egypt, Mongolia, Greece and Israel.

Turkey's bilateral investment treaty with the United States came into effect on May 18, 1990. A bilateral tax treaty between the two countries took effect on January 1, 1998. Turkey has signed avoidance of double taxation agreements with 59 countries; 39 of these are in force.

¶13. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The Overseas Private Investment Corporation (OPIC) offers a full range of programs in Turkey, including political risk insurance for U.S. investors, under its bilateral agreement with Turkey. OPIC is also active in financing private investment projects implemented by U.S. investors in Turkey. OPIC-supported direct equity funds, including the $USD 150 million Southeast Europe Equity Fund (SEEF) can make direct equity investments in private sector projects in Turkey. In 1987, Turkey became a member of the Multinational Investment Guarantee Agency (MIGA).

The U.S. Government annually purchases approximately USD 11.319 million of local currency. Embassy purchases are made at prevailing market rates, which fluctuate in accordance with Turkey's free floating exchange rate regime.

¶14. LABOR

The Turkish labor force numbers around 20.24 million persons, with nearly 35 percent employed in agriculture. With an official unemployment rate of 12.31.8 percent in the first quarter of 20032 and an average school-leaving age of 14, Turkey has an abundance of unskilled and semi-skilled labor. However, there is a shortage of qualified workers for highly automated high-tech industries. Individual high-tech firms, both local and foreign-owned, have generally conducted their own training programs for such job categories. Vocational training schools for some commercial and industrial skills exist in Turkey at the high school level. Traditional apprenticeship programs, both formal and informal, are also common. Turkey's labor force has a reputation for being hardworking, productive and dependable.

Labor-management relations have been generally good in recent years. Employers are obliged by law to negotiate in good faith with unions that have been certified as bargaining agents. Strikes are usually of short duration and almost always peaceful. Since 1980 Turkey has faced criticism by the International Labor Organization (ILO), particularly for shortcomings in enforcement of ILO Convention 98 (right to organize and collective bargaining). In May 2001 the Turkish Government and public sector workers reached agreement on collective agreements through 2002. In 2003, Parliament approved The government is currently considering a Job Security Bill, which will ensure consultation between employers and labor groups over job cuts and safety standards while easing some restrictions on private employers' ability to lay off staff. The constitutional right to strike is restricted. In 1995 and 2001 constitutional amendments were passed which allow "civil servants" (defined broadly as all employees of the central government ministries, including teachers) to form trade unions and to engage in limited collective bargaining, but prohibits them from striking. Workers in the free zones are prohibited from striking for the first 10 years following establishment of a company.

¶15. FOREIGN TRADE ZONES/FREE PORTS

Since passage of the Turkish law on free zones in 1985, 210 zones have been established (Defne - can you check # of zones). The zones are open to a wide range of activity, including manufacturing, storage, packaging, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of any customs or duties. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. In contrast to

most other free zones, sales to the Turkish domestic market are allowed.

GGoods and revenues transported from the zones into Turkey are subject to all relevant import regulations. There are no restrictions on foreign firms operations in the free zones. Indeed, the operator of one of Turkey's most successful free zones located in Izmir is an American firm.

¶16. FOREIGN DIRECT INVESTMENT STATISTICS

(Aysem - Please update entire section
According to Turkish Treasury data, as of April November 2002, 5,938 6,311 foreign firms invested and are operating in Turkey. Total authorized foreign capital since 1980 was USD 31.9 34.0 billion, and aggregate actual inflows reached USD 15.2 15.7 billion. In 20012, EU countries accounted for 65.9 63.6 percent of authorized new foreign investment, OECD countries accounted for 90.2 90.4 percent, and Islamic countries for 3.1 2.6 percent. Over the past two decades, France (17.7 16.6 percent) has been the top source of foreign investment, followed by the Netherlands (13.6 15.7 percent), Germany (12.8 12.7 percent) and the U.S. (11.6 percent) (Note: these figures are based on the amount of authorized investment, not on actual capital inflows). Because of the absence of a bilateral tax treaty until 1998, much U.S.-origin capital has been invested in Turkey through third-country subsidiaries. By unofficial estimates the U.S. is actually the largest source of foreign investment in Turkey.

In 20012, about 48.2 58.0 percent of authorized foreign investment were in services, 45.9 39.8 percent in manufacturing, and about 6.0 2.2 percent in mining and agriculture combined. The sub-sectors with the greatest amount of authorized foreign investment include banking (18.9 10.3 percent); communications (10.9 percent); trade (8.1 11.4 percent); food, beverage and tobacco processing (5.3 11.9 percent); and insurance (7.7 percent) motor vehicles (6.5 percent); and electronics and electrical machinery (1.5 percent). Between 1980 and November March 2002, 43.0 45.0 percent of actual capital inflows were invested in services, 54.2 52.0 percent in manufacturing, 1.8 2.0 percent in agriculture, and 0.98 1.0 percent in mining. The finance, automotive and telecommunications food industry, trade and finance sectors received the highest share of increased foreign direct investment permits in 20012002. British HSBC Bank's purchase of Demirbank shares, Japanese Toyota S.A.'s investment in the automotive sector, and investments made by Turkcell with its Finnish partner Sonera Koc Financial Services and Kent Food Products Industry participation investments were the major foreign direct investment activities in 20012.

Total Foreign Direct   1999   2000   2001
2002(*)   2003(*)
Investment Stock
USD millions   10,185   11,892   15,180
18,500 15,749   18,000 (*)
Sources: General Directorate of Foreign Investment
(*) U.S. Embassy estimate

Cumulative Total Foreign Direct Investment Permits
By country of origin, NovemberMarch 2002

Country	Value ($mil.)		Share	
France	5,545.6	5,665	16.6	17.4
Netherlands	4,331.6	5,336	15.7	13.6
Germany	4,129.1	4,329	12.7	12.9
United States	3,710.2	3,929	11.6	11.6
United Kingdom	2,497.9	2,669	7.9	7.8
Switzerland	2,125.8	2,261	6.7	6.7
Italy	1,941.3	1,883	5.5	6.1
Japan	1,745.4	1,819	5.4	5.5
Belgium	385.6	485	1.4	1.2
Saudi Arabia	318.1	321	1.0	1.0
Others	5,142.1	5,308	15.6	16.1

Total	31,872.7	33.995	100.0

Source: General Directorate of Foreign Investment, Treasury.

Foreign Direct Investment by Year (million USD)

FDI permissions

Year	Cumulative Permits	Annual Permits	Actual Inflow	No. Firms
To: 1988	3,050			1,172
1989	4,562	1,512	855	1,525
1990	6,423	1,861	1,005	1,856
1991	8,390	1,967	1,041	2,123
1992	10,210	1,820	1,242	2,330
1993	12,274	2,063	1,016	2,554
1994	13,751	1,478	830	2,830
1995	16,690	2,938	1,127	3,163
1996	20,527	3,837	964	3,582
1997	22,205	1,678	1,032	4,068
1998	22,629	1,646	976	4,533
1999	24,319	1,701	817	4,950
2000	27,379	3,060	1,707	5,328
2001	30,118	2,739	3,288	5,841
2002 (*)	31,872	523	N/A	5,938
	33,995	2,243	569	6,311

Source: General Directorate of Foreign Investment,; (*) As of March November 2002.

Actual FDI Inflow as Percentage of Turkish GDP

Year	FDI flow (USD mil.)	FDI flow/GDP (Pct.)
Up to 1988	3,229	
1989	855	0.80
1990	1,005	0.67
1991	1,041	0.69
1992	1,242	0.78
1993	1,016	0.56
1994	830	0.64
1995	1,127	0.66
1996	964	0.53
1997	1,032	0.54
1998	976	0.49
1999	817	0.41
2000	1,719	0.85
2001	3,288	2.21
2002	569	0.48

Source: General Directorate of Foreign Investment, and the State Planning Organization.

Turkey's FDI by Country (As of December 20021)

Country	Amount (USD millions)		Share	
Netherlands	1,916.5	1,868.2	30.9	40.2
United Kingdom	519.4	523.1	8.9	10.9
Germany	440.6	532.7	8.8	9.2
Luxembourg	236.9	245.8	4.1	5.0
Russia	181.4	163.7	2.7	3.8
Azerbaijan	156.6	741.8	12.3	3.3
Kazakhstan	170.6	431.5	7.1	3.6
United States	185.8	192.6	3.2	3.9
Romania	117.9	122.7	2.0	2.5
Others	839.7	1,218.6	20.1	17.6
	4,765.4	6,040.8		100.0

Source: General Directorate of Banking and Foreign Exchange, Treasury

Major foreign investors

Turkey's largest foreign investors include Telecom Italia, Renault, Toyota, Fiat, Castrol, Enron Power, Citibank, Pirelli Tire, Unilever, RJR Nabisco, Philip Morris, United Defense, Honda, Hyundai, Bosch, Siemens, DaimlerChrysler, Chase Manhattan, AEG, Bridgestone-Firestone, Cargill, Novartis, Coca Cola, Colgate-Palmolive, General Electric, General Motors-Opel, ITT, Ford Motor Co., Lockheed Martin, Gillette, Goodyear, Hilton International, Aventis, McDonald's, Nestle, Mobil, Pepsi, Pfizer, Procter and Gamble, InterGen and Shell.

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